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SUBJECT: NIGERIA: MEETING WITH NNPC MANAGING DIRECTOR

1. Summary: On January 31, Ambassador Jeter and Econoff met with Nigerian National Petroleum Corporation (NNPC) Group Managing Director, Jackson Gaius-Obaseki, and NNPC Group Executive Director, Refining and Petrochemicals Directorate, Mansur Ahmed. Gaius-Obaseki told the Ambassador that the NNPC was concerned about financial transparency in the oil sector. Ahmed said the productivity of Nigeria's refineries has improved; however, Gaius-Obaseki added that the refineries should be privatized. Nonetheless, he went on to note that it would be politically impossible to raise motor fuel prices in order to earn more revenue through the sale of what most Nigerians see as their nation's patrimony. Gaius-Obaseki dismissed Presidential aspirant Buhari's promise of reform in the energy sector, should he be elected president. President Obasanjo deserves praise for implementing reforms, but he is only one man, and reform is slow. Gaius-Obaseki pointed to expanding LNG production and timely NNPC cash calls to oil companies as positive developments, but acknowledged that the NNPC still owes money to oil companies arising from previous military administrations. The Ambassador commended NNPC's ongoing efforts to resolve the problems. End Summary.

Transparency in the Oil Sector

2. The Ambassador noted there was a growing movement in the U.S. and UK governments, NGOs, and the media to promote greater transparency in extractive industries. Gaius-Obaseki replied that the NNPC has made great progress in transparency. NNPC accounting is transparent, he said, and he referred the Ambassador to the NNPC webpage as an example of this effort. Gaius-Obaseki added that the NNPC's critics are mainly in the National Assembly. "If you had been here in late 1998, to be honest, [you would have seen that] we NNPC officials were not sure then that we would be here today (still under democratic rule)," commented The Group Managing Director. Nigeria was lucky that democracy had taken root.

Status of Oil Refineries

3. Ahmed updated the Ambassador on Nigeria's state-owned refineries. He said the refineries were doing better, but "they are not yet where they should be." He remarked that some of the refineries, such as Kaduna's, have raised their refining levels to 70% of capacity, but Nigeria's four refineries need major overhauls and constant maintenance. Gaius-Obaseki said he would like to sell the refineries to private investors, but the GON probably had too much at stake to completely privatize the refineries. Nigerians, especially before the general elections, will not accept motor fuel price hikes. The Ambassador replied that the refineries would need major GON investment to make them attractive to private investors. Gaius-Obaseki agreed.

Laughs for Buhari

4. The Ambassador disclosed that he had recently spoken with Presidential hopeful Buhari, who had said NNPC reform would be one of his main area of focus. Gaius-Obaseki laughed and remarked, as President Obasanjo had stated, that anyone can say he will reverse the years of neglect of military rule, but to do so is very difficult. The Managing Director said the NNPC has improved dramatically under Obasanjo. Gaius-Obaseki advised everyone to be fair with Obasanjo; "the President cannot do it all alone."

Resolving contracting irregularities (corruption and lack of transparency in bidding) in Nigeria is an uphill battle that is unlikely to be won soon, Gaius-Obaseki concluded.

Natural Gas Development Going Strong

15. The Ambassador stated that he had seen some very optimistic numbers in the press, and wondered how much earnings from liquefied natural gas (LNG) sales might affect the GON's budget revenue in the mid- and long-term. The NNPC Managing Director said that revenue from LNG would be considerable, but he did not have an idea of the projected revenue.

Cash Calls and New U.S. Business

16. The Ambassador noted that there were still disputes, dating from before 1999, about cash-call arrears to some U.S. oil companies. Gaius-Obaseki replied that the GON is current on cash calls after 1999, and is slowly paying pre-1999 debt to joint venture (JV) companies. (Although the GON is now opting for Production Sharing Contract (PSC's) for the development of deep offshore fields, production from JV's currently account for nearly all of Nigeria's crude oil output. NNPC holds an average 57 percent stake with JV partners such as ExxonMobil, Shell and ChevronTexaco, which hold an average 43 percent. During the Abacha era, the NNPC did not contribute its share to JV operations, which resulted in hundreds of millions of dollars in arrears. By the end of February 2003, the NNPC had liquidated almost all of its cash call arrears.) The Ambassador told the Managing Director that this was good news and noted that several of the U.S. major oil companies also had commended NNPC for clearing up the arrears. We were also very pleased about the recent successes of Ocean Energy and Cooper-Cameron's Ehra project. On Ocean Energy, the GON had honored its 2001 commitment to us, which, in turn, sent a very positive signal to U.S. independent oil companies interested in doing business in Nigeria.

The Delta

17. The Ambassador asked for views on the political situation in the Delta. Gaius-Obaseki responded that "all is quiet." He said the Niger Delta Development Commission (NDDC) was organized and was easing tension by providing support to the inhabitants in the Delta. The Ambassador said that it appeared that the NDDC has made little progress. Gaius-Obaseki then admitted that the NNDC has not been as visible as it should have been, and it should have engaged more with local communities. The Ambassador asked Gaius-Obaseki what he thought about the recent battle between the National Assembly and President over the oil dichotomy bill. He responded that he was not a politician and was staying away from the battle.

OPEC Oil Quota

18. Gaius-Obaseki reported that Nigeria's crude oil production was almost at Nigeria's OPEC quota of around 2.1 million barrels a day. The Ambassador asked whether Nigeria was looking for a change in the OPEC formula for calculating its member-states' quotas. Gaius-Obaseki responded obliquely by saying that Nigeria's quota remained small, given its population and production capacity. He then suggested that all questions about Nigeria's quota be put to the Presidential Advisor on Petroleum and Energy Affairs, Rilwanu Lukman.

NNPC fire in Lagos

19. The Ambassador said that he was saddened to learn about the fire that razed one of the NNPC's main buildings in Lagos in late December, and stated that we were very grateful that no one was hurt. He asked if the fire had affected NNPC operations. Gaius-Obaseki replied that NNPC workers were relocated to other offices and that overall operations were unaffected. Gaius-Obaseki ruled out arson, saying the fire was caused by an electrical malfunction.
JETER